

Message Text

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C O N F I D E N T I A L SECTION 01 OF 05 OTTAWA 01235

PASS TREASURY, CEA, AND VICE PRESIDENT'S OFFICE FOR CLIFT

E.O. 11652: GDS
TAGS: EFIN, ECON, CA
SUBJECT: BLUMENTHAL/SCHULTZE TALKS IN CANADA MARCH 9

SUMMARY. SECRETARY BLUMENTHAL AND CEA CHAIRMAN SCHULTZE MET WITH FINANCE MINISTER CHRETIEN, BANK OF CANADA GOVERNOR BOUEY, AND OTHERS FOR FULL DAY MARCH 9, INCLUDING WORKING LUNCH AND PRESS CONFERENCE. (SEE SEPTTEL FOR MEDIA REACTION). TOPICS COVERED IN TALKS WERE SHORT AND MEDIUM TERM ECONOMIC OUTLOOK AND POLICY STRATEGIES FOR U.S. AND CANADA AND OUTLOOK FOR DOLLAR. IN AFTERNOON SESSION BILATERAL ISSUES WERE REVIEWED. GOC RAISED U.S. STEEL TRIGGER PRICE, U.S. TREATMENT OF FOREIGN CONVENTIONS, PROSPECTIVE CHANGES IN TAXATION OF REINVESTED PROFITS OF U.S. FOREIGN SUBSIDIARIES, AND U.S. COUNTERVAILING ACTION RE IMPORTS OF ZINC AND CERTAIN FISH. U.S. SIDE MENTIONED KITIMAT. AS PREVIOUSLY AGREED, BILATERAL QUESTIONS WERE REVIEWED BUT NOT NEGOTIATED. STATE OF PLAY OF MTN ALSO REVIEWED. AT PRESS CONFERENCE SECRETARY BLUMENTHAL REITERATED ASSURANCES U.S. CONTEMPLATES NO RESTRICTIVE
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TRADE MEASURES TO PROTECT DOLLAR, THAT NARROWING OF GROWTH RATES BETWEEN U.S. AND OTHER COUNTRIES WILL HELP U.S. TRADE BALANCE THIS YEAR, AND THAT GOOD GROWTH PROSPECTS FOR U.S. THIS YEAR WILL HELP CANADA. CANADIAN OFFICIALS SAID SUBSTANCE OF TALKS WAS VERY USEFUL TO THEM. EMBASSY BELIEVES VISIT ACHIEVED OBJECTIVES OF ASSURING CANADA GOOD ECONOMIC OUTLOOK FOR U.S. WILL BE HELPFUL TO ECONOMY

HERE, ESTABLISHING PERSONAL CONTACTS BETWEEN HIGH LEVEL U.S. AND CANADIAN OFFICIALS, AND DEMONSTRATING CONTINUING HIGH LEVEL U.S. INTEREST IN CANADA FOLLOWING VICE PRESIDENT'S VISIT IN JANUARY. CANADIAN PUBLIC'S CONCERNS WERE ALLAYED RE U.S. PROTECTIONISM OR POSSIBLE JOINT DECISIONS RE "CONTINENTALIST" POLICIES. SECRETARY BLUMENTHAL INVITED CHRETIEN AND COLLEAGUES TO FURTHER CONSULTATIONS IN WASHINGTON WHENEVER THIS MIGHT APPEAR USEFUL. IN COMMENTING TO AMBASSADOR FOLLOWING DEPARTURE OF U.S. PARTY, CHRETIEN EXPRESSED HIS CONSIDERABLE SATISFACTION WITH VISIT AS INITIAL STEP IN CLOSER ECONOMIC POLICY CONSULTATION. END OF SUMMARY.

2. AT TWO HOUR MORNING SESSION MARCH 9, U.S. AND CANADIAN SIDES REVIEWED SHORT AND MEDIUM TERM ECONOMIC OUTLOOK AND STRATEGIES. CHRETIEN DESCRIBED CANADIAN PROBLEMS OF CHRONIC PAYMENTS DEFICIT COMBINED WITH CURRENT HIGH RATES OF UNEMPLOYMENT INFLATION AND A DEPRECIATING DOLLAR AT TIME WHEN WAGE AND PROFIT CONTROLS ARE BEING REMOVED. HE SAID HE HAD SET A TOUGH TARGET FOR INCREASES IN COMPENSATION THIS YEAR AT SIX PERCENT AT A TIME WHEN CONSUMER PRICES WERE INCREASING BY NINE PERCENT, BUT INDICATED SOME SURPRISE THAT THERE HAD BEEN LITTLE PROTEST SO FAR FROM LABOR GROUPS AND WAGE SETTLEMENTS HAD CONFORMED TO THE AGREED FORMULA. HE NOTED TRADE SURPLUS CONTINUED TO IMPROVE, FROM ABOUT DOLS 1 BILLION IN 1976 TO NEARLY 3 BILLION IN 1977, CONFIDENTIAL

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BUT THAT SERVICE DEFICIT FOR INTEREST, DIVIDENDS, AND TRAVEL, ESPECIALLY WITH THE U.S., CONTINUED TO GROW.

3. CHRETIEN SAID UNEMPLOYMENT WAS HIGH AT 8.3 PERCENT, BUT THAT MUCH OF THIS WAS REGIONAL, BEING CONCENTRATED IN ATLANTIC PROVINCES AND NOW IN QUEBEC. HE DESCRIBED QUEBEC--30 PERCENT OF THE ECONOMY--AS "A MESS". POLITICAL UNCERTAINTY THERE HAD BEEN A DETERRENT TO GROWTH. INVESTMENT FIGURES IN QUEBEC WERE MISLEADING BECAUSE OF THE LARGE JAMES BAY HYDRO ELECTRIC PROJECT NOW UNDERWAY, BUT IN FACT PRIVATE SECTOR INVESTMENT IN QUEBEC WAS NOW DOING "NOTHING". QUEBEC HAD NOW JOINED ATLANTIC PROVINCES AS AREA OF VERY HIGH UNEMPLOYMENT. NATIONAL UNEMPLOYMENT FOR ADULT MALES WAS STABLE AT 4 1/2 TO 5 PERCENT BUT WAS HIGH AMONG YOUTH AND WOMEN.

4. ROBERT ANDRAS, PRESIDENT OF TREASURY BOARD, SAID UNEMPLOYMENT IN LARGE MEASURE DUE TO RAPID GROWTH OF LABOR FORCE FROM POST WAR BABY BOOM AND INCREASE IN PARTICIPATION RATES FOR WOMEN. IMMIGRATION HAS NOW BEEN CUT BACK, AND THE BIRTH RATE HAS NOW DROPPED BELOW RATE FOR A STABLE POPULATION. WHILE FEMALE PARTICIPATION RATES WILL PROBABLY

CONTINUE TO RISE TO INTERNATIONAL LEVELS, THERE COULD BE
SHORTAGE OF LABOR IN MID 1980S.

5. ANDRAS NOTED THAT DESPITE HIGH UNEMPLOYMENT THERE WAS
A SHORTAGE OF MANPOWER FOR SOME HIGHLY SKILLED JOBS, DE-
SPITE MANPOWER TRAINING PROGRAMS.

6. MONETARY POLICY. GOVERNOR BOUEY SAID CANADIAN MONETARY
POLICY OPERATED IN THE SAME WAY AS THAT OF U.S. BY USING
SHORT TERM INTEREST RATES TO INFLUENCE M1 AND CHANGE EX-
PECTATIONS. HE SAID MONETARY POLICY HAD PLAYED A USEFUL

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ROLE IN BRINGING DOWN INFLATION BY EXPANDING THE MONEY
SUPPLY AT RATES WHICH WERE SUFFICIENT FOR REASONABLE
GROWTH WITH DECLINING RATES OF INFLATION. AGGREGATE DEMAND
PRESSURES ON PRICES HAD NOT BEEN A PROBLEM. M1 GROWTH HAS
BEEN BROUGHT DOWN A GREAT DEAL BUT THE RATE OF DECLINE IS
NOW SLOWER. MONEY SUPPLY TARGETS HAVE BEEN SET ONCE A
YEAR WITH A NEW BASE PERIOD SINCE 1975. IN 1976 THERE WERE
VERY HIGH INTEREST RATES IN ORDER TO KEEP M1 WITHIN THE
TARGET RANGE WHICH RESULTED IN A HIGH EXCHANGE RATE, BUT
SINCE THEN MONETARY GROWTH HAS BEEN ON THE LOW SIDE OF THE
TARGET RANGE; THE BANK RATE WAS REDUCED FOUR TIMES SINCE
1976 UNTIL THE INCREASE ANNOUNCED THE NIGHT BEFORE (MARCH
8). THE LOWER INTEREST RATES AND REDUCTION OF THE INTER-
EST RATE DIFFERENTIALS WITH THE U.S. HAD BEEN DESIRABLE,
BUT WERE ALSO A FACTOR IN THE DECLINE OF THE CANADIAN
DOLLAR. INTEREST RATES IN THAT PERIOD WERE NOT BROUGHT
DOWN TO DECREASE THE EXCHANGE RATE BUT TO BRING DOWN COSTS

AND BECAUSE OF CONTROLS ON PROFITS AND PRICES.

7. HOWEVER, BOUEY SAID THE LARGE CURRENT ACCOUNT DEFICIT WAS A FUNDAMENTAL PROBLEM AND THE SITUATION IN QUEBEC HAD NOT BEEN HELPFUL. IT HAD NOT BEEN EASY TO DECIDE TO
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INCREASE THE BANK RATE THE NIGHT BEFORE, BOUEY SAID, WITH UNEMPLOYMENT AT 8.3 PERCENT. THERE WERE NO PARTICULAR GROUNDS FOR DOING IT BECAUSE OF THE PERFORMANCE OF M1, WHICH IS IN THE TARGET RANGE RATE OF GROWTH OF SEVEN TO ELEVEN PERCENT ANNUAL RATE FROM THE JUNE 1977 BASE. IT WAS FELT, HOWEVER, THAT THE CANADIAN DOLLAR WAS MOVING DOWN OVER TOO SHORT A PERIOD OF TIME AND THE DECLINE WAS UNDERMINING THE WHOLE PRICE STABILIZATION EFFORT BY RE-KINDLING INFLATIONARY EXPECTATIONS JUST AS CONTROLS ARE ENDING.

8. SECRETARY BLUMENTHAL AND GOVERNOR BOUEY AGREED IT WAS HARD TO QUANTIFY WHAT EFFECT A CHANGE OF ONE HALF OF ONE PERCENT IN INTEREST RATES WOULD HAVE ON THE EXCHANGE RATE, BUT THAT THE EFFECT ON EXCHANGE MARKETS WAS PRIMARILY PSYCHOLOGICAL.

9. GOVERNOR BOUEY SAID THERE WAS STILL SOMETHING OF A FIXED EXCHANGE RATE MENTALITY IN EXCHANGE MARKETS, BUT CANADIAN POLICY WAS TO LET THE RATE FLOAT. SOME PEOPLE WERE STUCK ON THE IDEA OF A 90 CENT CANADIAN DOLLAR. THAT IS WHY HE THOUGHT A CHANGE IN RATES OF ONE HALF OF ONE PERCENT WAS ENOUGH. HE NOTED THE EXCHANGE RATE HAD STRENGTHENED ON THE ANNOUNCEMENT OF THE RATE INCREASE.

10. SECRETARY BLUMENTHAL REVIEWED THE OUTLOOK FOR THE U.S. HE SAID GOOD NEWS WAS THAT GROWTH WAS GOOD LAST YEAR, BETTER THAN FOR MOST COUNTRIES. UNEMPLOYMENT REMAINS UN-ACCEPTABLY HIGH AND THE PRESIDENT IS COMMITTED TO BRING IT DOWN. ASIDE FROM STRUCTURAL PROBLEMS, THE QUESTION IS NOW HOW TO MAINTAIN ACCEPTABLE LEVELS OF GROWTH AND TO MAKE REASONABLE PROGRESS AGAINST INFLATION. THE U.S. IS TRYING TO PIERCE THE SIX PERCENT LEVEL OF INFLATION. HE SAID WE
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CAN COUNT ON ACCEPTABLE GROWTH OF 4 1/2 TO FIVE PERCENT IN 1978-79. THERE REMAINED THREE SERIOUS PROBLEM AREAS: THE U.S. DOLLAR, INFLATION, AND ENERGY.

11. SECRETARY BLUMENTHAL SAID THERE WAS NO DOUBT THAT THE SITUATION OF THE DOLLAR IN EXCHANGE MARKETS WAS NOT WARRANTED BY ANY MEASURE OF THE ACTUAL SITUATION IN THE WORLD OR THE U.S. THE U.S. ECONOMY IS STRONG, STRONGER THAN MOST. PROSPECTS ARE REASONABLY GOOD. TO SOME DEGREE THE U.S. IS THE VICTIM OF ITS OWN SUCCESS, BECAUSE OF OUR FASTER RATE OF GROWTH. THIS SITUATION SHOULD CORRECT ITSELF AS DIFFERENCES IN RATES OF GROWTH ARE REDUCED. COUNTRIES THAT COULD AND SHOULD HAVE DONE MORE TO ACCELERATE THEIR GROWTH DID NOT DO SO FOR DOMESTIC REASONS.

12. THE U.S. EXTERNAL ACCOUNTS WERE INFLUENCED BY A DOLS 45 BILLION OIL IMPORT BILL LAST YEAR AND A 31 BILLION TRADE DEFICIT. ASIDE FROM ENERGY THE U.S. ECONOMY IS CLEARLY QUITE COMPETITIVE IN WORLD MARKETS. ANY IDEA OF BENIGN OR MALIGN NEGLIGENCE OF THE DOLLAR TO MAKE THE U.S. MORE COMPETITIVE IS CLEARLY QUITE ERRONEOUS.

13. SECRETARY BLUMENTHAL SAID U.S. POLICY IS TO KEEP GROWTH AT ACCEPTABLE RATES TO WORK AS HARD AS POSSIBLE TO GET ENERGY LEGISLATION AND TO DO WHAT WE CAN TO MAKE EXCHANGE MARKETS ORDERLY. HE NOTED THAT WITH DOLS 420 BILLION FLOATING AROUND OUTSIDE THE U.S., IT WAS HARD TO MAINTAIN ORDERLY MARKETS WHEN SPECULATION IS RUNNING AGAINST THE DOLLAR. THE U.S. HAS SWAPS WITH THE FEDERAL REPUBLIC OF GERMANY AND OTHERS, AND WE ARE NOW LOOKING AT VARIOUS TECHNICAL MEASURES TO KEEP MARKETS UNDER CONTROL, HE SAID. THE FUNDAMENTAL AREAS ARE ACTION ON ENERGY AND ACTIONS BY OUR TRADING PARTNERS IN THEIR DOMESTIC ECONOMIES. OPEC

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COUNTRIES HAVE ACTED IN A RESPONSIBLE WAY BY NOT HAVING ANOTHER PRICE INCREASE. THE SAUDIS HAVE SAID THEY FULLY UNDERSTAND THE SITUATION AND DO NOT PLAN TO CHANGE THEIR DOLLAR DENOMINATED ASSETS HELD IN THE U.S. OR OUTSIDE THEIR OWN COUNTRY.

14. CHAIRMAN SCHULTZE SAID THAT THE HISTORY OF PAST INFLATION HAS MEANT THAT MEASURES TO EXPAND THE ECONOMY, RIGHTLY OR WRONG--AND HE BELIEVED THEY WERE WRONG--NOW GIVE RISE TO FEARS OF FURTHER INFLATION. BUSINESS INVESTMENT HAS BEEN RESPONSIVE, BUT HAS BEEN BELOW WHAT WE WOULD HAVE EXPECTED BECAUSE OF THE CONTINUING TRAUMA OF INFLATION IN THE LAST FOUR OR FIVE YEARS. THERE ARE ALSO STRUCTURAL UNEMPLOYMENT PROBLEMS WHICH EXIST EVEN WITH ECONOMIC EXPANSION. THE UNEMPLOYMENT RATE AMONG BLACK YOUTH IS 38 PERCENT; IF COUNTED CORRECTLY, THAT RATE WOULD BE NEARER 50 PERCENT.

15. CHAIRMAN SCHULTZE SAID THAT LIKE CANADA, THE U.S. HAS MEDIUM TERM GOALS. LONG TERM BUDGET STRATEGY WAS TO KEEP THE GROWTH OF FEDERAL EXPENDITURES SUCH THAT THE FEDERAL SHARE OF GNP CONTINUES TO DECLINE MODESTLY. THIS WILL NOT

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VARY.

16. THE U.S. HAS A LARGER DEGREE OF FLEXIBILITY IN FISCAL POLICY BECAUSE TAXES ARE NOT INDEXED. THIS MEANS THAT WE DO NOT HAVE TO INTRODUCE NEW TAXES AS THE ECONOMY MOVES BACK TOWARDS FULL EMPLOYMENT BUT THAT EFFECTIVE TAX RATE WILL AUTOMATICALLY INCREASE (WITH INFLATION) AS THE ECONOMY EXPANDS. IF IT DOES NOT EXPAND WELL ENOUGH, TAXES CAN BE REDUCED. THIS EFFECTIVELY COUNTERS THE FEAR THAT STIMULUS COULD BE INFLATIONARY. A NON-INDEXED TAX SYSTEM GIVES US THAT FLEXIBILITY. IT IS ALWAYS EASY TO REDUCE TAXES, BUT NOT TO INCREASE THEM.

17. CHRETIEN SAID WITH REGRET THAT CANADA DOES NOT HAVE THAT FLEXIBILITY. HE SAID HE WOULD LIKE TO ELIMINATE TAX INDEXATION, BUT THAT CANNOT BE DONE BEFORE AN ELECTION.

18. SCHULTZE SAID THERE WERE TWO PRONGS TO U.S. ANTI-INFLATION POLICY. FIRST, WAS THE NEED TO MAKE SURE THAT EXPANSION CONTINUES FOR SEVERAL MORE YEARS AT 4 1/2 TO FIVE PERCENT SO THAT WE DO NOT RUN INTO PRODUCTION BOTTLENECKS IN A FEW YEARS. THE ADMINISTRATION'S TAX PROPOSALS HAD INCENTIVES FOR MORE INVESTMENT. IF INVESTMENT DOES NOT INCREASE, THE EXISTING CAPITAL STOCK IS SUCH THAT AT HIGH RATES OF EMPLOYMENT THERE WILL BE CAPACITY SHORTAGES. WEAK

INVESTMENT IN 1978-79 COULD THUS LEAD TO UNEMPLOYMENT IN 1980-81. TAX PROPOSALS CONTAIN DOLS 6 MILLION TO INCREASE INVESTMENT. WE ARE ALSO BUILDING 30 TO 35 MILLION METRIC TONS OF GRAIN RESERVES WITH RELEASE PRICES ABOVE THE CURRENT PRICE.

19. SECOND PRONG CHAIRMAN SCHULTZE SAID WE ARE ADDRESSING SHORT RUN PROBLEMS OF GETTING PRICES DOWN. IN 1974 PRICES
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WERE INCREASING AT 12 PERCENT. EXCLUDING FOOD, PRICES HAVE BEEN RUNNING AT ABOUT SIX PERCENT OR A LITTLE ABOVE FOR THE PAST TWO TO TWO AND A QUARTER YEARS. THE RAPID DECLINE IN PRICE INCREASES WAS DUE TO THE SLUGGISH NATURE OF U.S. WAGE STRUCTURE. WAGES WENT UP SLOWLY BUT NOW THEY ARE COMING DOWN SLOWLY AND ARE NOT VERY SENSITIVE TO UNEMPLOYMENT LEVELS. THIS HELPED US AT FIRST, BUT NOW IT IS HURTING.

20. TO ADDRESS THIS PROBLEM THE PRESIDENT HAS PROPOSED A MODEST, VOLUNTARY INCOMES POLICY PROGRAM. SINCE WAGE GUIDELINES OR SPECIFIC NUMBERS ARE ANATHEMA TO UNIONS, THE PROPOSAL IS FOR A STANDARD OF BEHAVIOR CALLING FOR MODEST REDUCTION IN WAGE INCREASES FROM THE PREVIOUS YEAR. IF WAGE INCREASES CAN BE BROUGHT DOWN BY 1/2 TO 3/4 OF ONE PERCENT, THEN A DOWNWARD TREND CAN BE DEVELOPED WHICH WILL AFFECT EXPECTATIONS.

21. THE FEDERAL GOVERNMENT ITSELF PLANS TO TAKE SYMBOLIC ACTIONS ON WAGES AND PRICES UNDER ITS CONTROL, IN THE ATTEMPT TO GET THE PRIVATE SECTOR TO FOLLOW SUIT.

22. CHAIRMAN SCHULTZE SAID THE GOAL WAS TO GET UNEMPLOYMENT DOWN TO FROM 6 TO 5 PERCENT IN THE PERIOD 1979-1980, AND TO 4 PERCENT BY 1983. HOWEVER, THE FOUR PERCENT GOAL WOULD BE MET ONLY WITH MAJOR SUCCESS IN ADDRESSING STRUCTURAL UNEMPLOYMENT PROBLEMS. DIRECT PUBLIC SECTOR EMPLOYMENT PROGRAMS WERE IMPLEMENTED IN 1976-77 BUT IN 1977-79 THE EMPHASIS ON TRAINING PROGRAMS TO ADDRESS STRUCTURAL PROBLEMS. THE PRESIDENT HAS AUTHORITY TO ADJUST THE POLICY OF FOUR PERCENT UNEMPLOYMENT SO AS NOT TO BE FORCED TO ACHIEVE IT AS THE COST OF GREATER INFLATION.

23. DEPUTY FINANCE MINISTER SHOYAMA ASKED WHETHER THE COUNCIL ON WAGE AND PRICE STABILITY (CWPS) WAS ADDRESSING INFLATION PROBLEMS ON A SECTOR BY SECTOR BASIS.
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24. CHAIRMAN SCHULTZE SAID THAT THERE WERE ONLY THREE MAJOR WAGE CONTRACTS UNDER NEGOTIATION IN THE NEXT YEAR. THE STANDARD OF BEHAVIOR PROGRAM WAS DESIGNED TO HELP THE MANY MEDIUM AND SMALL CONTRACTS THAT WOULD BE NEGOTIATED. MORE MAJOR CONTRACTS EXPIRE IN 1979. CWPS WILL HAVE TALKS WITH LARGE INDIVIDUAL INDUSTRIES SUCH AS ALUMINUM, STEEL, AUTOS, AND PAPER, NOT JUST ABOUT WAGES BUT ALL COSTS, INCLUDING CAPACITY PROBLEMS AND AREAS OF COST OVER WHICH THE GOVERNMENT HAS SOME CONTROL SUCH AS HYDROELECTRIC POWER IN THE CASE OF ALUMINUM AND THE TIMBER CUT IN THE CASE OF PAPER.

25. IN RESPONSE TO QUESTIONS BY CHRETIEN, SECRETARY BLUMENTHAL SAID THERE WAS NO SUBSTANCE TO RUMORS THAT THE U.S. PLANNED IMPOSITION OF AN INTEREST EQUALIZATION TAX FOR FOREIGN BORROWING IN THE U.S. OR A SURTAX ON IMPORTS.

26. ON ENERGY LEGISLATION SECRETARY BLUMENTHAL SAID THERE WAS REPORTED TO BE AN AGREEMENT ON DEREGULATION OF GAS PRICES IN THE SENATE, BUT THAT ANOTHER IMPORTANT ISSUE TO BE RESOLVED WAS THE PROPOSAL FOR THE CRUDE OIL EQUALIZATION TAX (COET). IF CONGRESS DID NOT GO ALONG WITH THE
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COET, THE PRESIDENT'S ENERGY PROPOSALS WOULD NOT HAVE MUCH BITE ON THE PRICE SIDE IN GETTING DOMESTIC OIL PRICES UP TO THE WORLD LEVELS AND THE PRESIDENT WOULD THEN HAVE A DIFFICULT DECISION TO FACE. HE SAID WE SHOULD KNOW THE FATE OF THIS PROPOSAL IN THE NEXT FEW WEEKS. CANADIAN OFFICIALS SAID U.S. ACTION ON OIL PRICES WOULD HAVE AN IMPACT ON THE DEVELOPMENT OF HIGH COST SOURCES OF OIL IN CANADA SUCH AS THE SYNCRUDE PROJECT.

27. FOLLOWING LUNCH, CANADIAN SIDE RAISED FIVE BILATERAL ISSUES.

28. STEEL TRIGGER PRICE. CHRETIEN SAID HE WISHED TO NOTE CONCERN ABOUT NEW U.S. ARRANGEMENTS FOR ANTI-DUMPING ACTION ON STEEL SINCE CANADA SELLS MUCH STEEL TO THE U.S. SECRETARY BLUMENTHAL SAID THERE WAS NO SYSTEM OF MINIMUM PRICES; PROCEDURES WERE DESIGNED TO BE ABLE TO MOVE FORWARD ON ANTI-DUMPING INVESTIGATIONS MORE RAPIDLY UNDER CLEARLY DEFINED RULES, WHICH WE ARE APPLYING ON A NON-DISCRIMINATORY BASIS. ANY PRODUCER THAT CAN SHOW HIS COSTS ARE LESS THAN THOSE CALCULATED FOR JAPAN IS ENTITLED TO STEEL AT LESS THAN THE JAPANESE PRICE. GIVEN ITS PROXIMITY, SYSTEM MAY BE TO THE ADVANTAGE OF CANADA. HE SAID HE WAS SURE GOC WAS GETTING THE DETAILS ABOUT CURRENT DISCUSSIONS, BUT HE WAS WILLING TO PROVIDE FURTHER INFORMATION.

29. ASSISTANT DEPUTY MINISTER JOYCE SAID HE DID APPRECIATE PROBLEM AND FACT CANADIAN PRODUCERS WERE ABLE TO MAKE THEIR CASE. ONE HAD DONE SO ALREADY BUT TWO OTHER HAD NOT YET EXPRESSED INTEREST. HE EXPRESSED CONCERN THAT IT WAS NECESSARY FOR INDIVIDUAL PRODUCERS TO GO TO WASHINGTON. SECRETARY BLUMENTHAL SAID HE THOUGHT WE SHOULD LET SYSTEM WORK FOR A WHILE AND SEE WHETHER THERE WAS AN EXCESSIVE

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BURDEN. IF IT IS FOUND THAT THERE IS A BURDEN DESPITE CANADA'S PROXIMITY, THEN WE WILL TAKE ANOTHER LOOK AT THE SITUATION.

30. CONVENTION TAX ISSUE. CHRETIEN SAID THAT VICE PRESIDENT MONDALE HAD INDICATED THERE WOULD BE MOVEMENT ON TAX CHANGES RE FOREIGN CONVENTIONS, BUT HE WAS NOW INFORMED THERE WERE PROBLEMS WITH TAX REFORM MEASURES IN CONGRESS. CHRETIEN SAID THERE WAS PRESSURE TO REDUCE THE FLOW OF TOURISTS TO THE U.S. BECAUSE OF THE TRAVEL DEFICIT, BUT THAT HE WAS RESISTING THIS PRESSURE--AND HE WAS NOT SURE

HE COULD DO ANYTHING ABOUT IT ANYWAY.

31. SECRETARY BLUMENTHAL SAID THERE WERE TWO ELEMENTS TO THE QUESTION. FIRST, PROPOSALS HAD BEEN MADE BY THE ADMINISTRATION WHICH WOULD LIBERALIZE EXISTING RULES, SUCH AS MAKING DEDUCTABLE EXPENSES FOR CONVENTIONS WHICH WERE REASONABLE TO HOLD OUTSIDE THE U.S. BECAUSE OF MEMBERSHIP OR THE CHARACTER OF THE ORGANIZATION. HE SAID HE HOPED GOC WOULD AGREE THIS WAS TO CANADA'S ADVANTAGE. HE SAID

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TAX REFORM PROPOSALS WERE NOT ALL LINKED AND HE BELIEVED PROSPECTS FOR GETTING THIS PROPOSAL THROUGH CONGRESS WERE GOOD. SECOND, HE SAID WE COULD GO FURTHER IN THE CONTEXT OF A TAX TREATY IF THERE WAS AN ADEQUATE QUID PRO QUO ON AREAS SUCH AS TV ADVERTISING OR OTHER OUTSTANDING MATTERS RE THE TAX TREATY. SECRETARY BLUMENTHAL SAID TAX TREATY HAD BEEN UNDER NEGOTIATION FOR YEARS AND HE URGED THAT EFFORTS BE INCREASED TO MOVE FORWARD ON IT AT AN EARLY DATE. DEPUTY FINANCE MINISTER SHOYAMA SAID THERE ARE QUITE DIFFICULT ISSUES YET TO RESOLVE IN THE TAX TREATY.

32. INVESTMENT TAX CREDIT. DEPUTY FINANCE MINISTER SHOYAMA SAID HE WAS HEARTENED BY STATEMENTS THAT REPEAL OF U.S. TAX CREDIT FOR REINVESTED EARNINGS OF U.S. FOREIGN SUBSIDIARIES WOULD HAVE LITTLE EFFECT ON INVESTMENT. HOWEVER, HE EXPRESSED CONCERN WITH LOWER TAX RATES IN THE U.S. IN SOME AREAS SUCH AS ENERGY. WITH SUCH SUBSIDIES UNAVAILABLE IN CANADA, HE WAS CONCERNED THAT REPEAL

OF THE INVESTMENT TAX CREDIT WOULD HAVE AN ADVERSE IMPACT
ON INVESTMENT FLOWS INTO CANADA IN THESE AREAS.

33. FISH. JOYCE SAID THAT THE REQUEST FOR INFORMATION
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RE SUBSIDIES ON CERTAIN CATEGORIES OF FISH AFFECTED TRADE
WITH A VALUE OF DOLS 200 MILLION. ISSUE AFFECTS ATLANTIC
COASTAL PROVINCES WHERE UNEMPLOYMENT IS HIGH AND TOUCHES
ON TRADE NEGOTIATIONS IN MTN. HE SAID GOC SIMPLY WANTED
TO EXPRESS ITS CONCERN IN THIS CONTEXT. FORMAL RESPONSE
BY GOC ON ISSUE WILL BB FORTHCOMING.

34. ZINC AND COPPER. JOYCE SAID THERE WERE REQUESTS IN
U.S. FOR INJURY FINDINGS IN ZINC AND RELATED COPPER TRADE
WITH VALUE OF DOLS 300 MILLION. THIS ALSO AFFECTS AREAS
OF HIGH UNEMPLOYMENT IN CANADA. HE SAID CANADA HAD LONG
BEEN RELIABLE SUPPLIER TO U.S. MARKET OF NON-FERROUS
METALS; INVESTMENT AND PRODUCTION NEEDS TO BE CONTINUED
TO AVOID MARKET BOTTLENECKS IN EARLY 1980S. IF CANADA
WAS SHUT OUT OF U.S. MARKETS NOW, MARKET PROBLEMS COULD
APPEAR.

35. SECRETARY BLUMENTHAL RAISED QUESTION OF KITIMAT OIL
PORT. HE SAID WE CONTINUE TO BE INTERESTED IN KITIMAT
PROJECT, AND HOPE THERE CAN BE CONSULTATIONS ON THE
QUESTION. CHRETIEN SAID THERE HAD BEEN NO FINAL DECISION,
BUT BECAUSE OF THE ENVIRONMENTAL IMPACT AND LOCAL FISHING
CONCERNS, IT WOULD HAVE TO BE DEMONSTRATED THAT THE PRO-
JECT WAS GOOD FOR CANADA.

36. MTN. BOTH SIDES AGREED ON THE IMPORTANCE OF SUCCESS-
FUL OUTCOME OF MTN NEGOTIATIONS. JOYCE SAID, HOWEVER,
THAT "MINI-PACKAGE" OF TARIFF CUTS ONLY WOULD NOT WASH
POLITICALLY IN CANADA AND THAT THERE MUST BE PROGRESS ON
NON-TARIFF BARRIERS (NTBS) AS WELL. HE WAS ALSO CON-
CERNED THAT DEVELOPING COUNTRIES WERE BEHIND IN THEIR
PREPARATIONS AND COULD HOLD UP TIMETABLE FOR COMPLETION
OF NEGOTIATIONS. HE NOTED THAT EUROPEANS WERE LINKING
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TARIFF CUTS WITH ELIMINATION OF SUBSIDIES AND NTBS AND
ASKED WHETHER ELIMINATION OF WIDE RANGE OF NTBS COULD
BE APPROVED BY CONGRESS. SECRETARY BLUMENTHAL AGREED IT
WOULD BE HARD TO GET SUCH CHANGES THROUGH CONGRESS, BUT
THAT IT MIGHT BE POSSIBLE AT THE LAST MINUTE TO UNLINK

TARIFFS FROM NTBS IN MTN NEGOTIATIONS. ENDERS

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